

## Business Report: Real Estate Industry Changes Are Coming

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On Nov. 20, 2013, the Consumer Financial Protection Bureau (CFPB) released their "final rule" regarding the integration, simplification and improvement of consumer disclosures given in a mortgage transaction (with an effective date of Aug. 1, 2015).

The changes will affect not only lenders, but also every third-party service provider a lender deals with (i.e. settlement agents, real estate agents, title companies, appraisers) because if the third-party provider is not compliant with the regulations, the lender is held responsible for their mistakes.

What is the CFPB? It was created to watch over the interests of American consumers in financial products and services of all kinds.

The "final rule" was enacted to make it easier for consumers to shop for mortgages and protect them from costly surprises at their closing by integrating consumer disclosures. Many of us in the real estate industry have been preparing for these changes for several years...Are you prepared?

So what are the changes? First, let's take a look at the five primary changes we can expect from Lenders:

1. Loan Estimate Form (or LE): This form will be provided to consumers within three business days after they submit a loan application.

It replaces the early Truth in Lending statement and the Good Faith Estimate, and provides a summary of the key loan terms and estimated loan and closing costs. Consumers can use this new form to compare the costs and features of different loans.

2. Closing Disclosure Form (or CD): This form integrates the HUD-1 and the "final TIL".

There are multiple versions of the form to account for different transaction types, such as a refinance and a purchase. There also is a seller-only form. Because the form is a mixture of loan information and settlement costs, communication and cooperation between the lender and closing agent will be necessary to complete the Closing Disclosure.

If the settlement agent completes the Closing Disclosure form, the lender will need to provide a copy of the Loan Estimate form, as the information it provides will be necessary to complete the Closing Disclosure form.

3. Three-day Rule: Consumers will receive this form three business days before closing on a loan.

The CFPB conducted more than two years of extensive research, testing, and review to find out how to create mortgage disclosures that do what the law intended them to do: disclose information in a way that consumers can understand. A good disclosure helps consumers know if they want to commit to the loan being offered, and it enables them to make meaningful comparisons between loan products for better shopping. If any changes are needed on the CD during that three-day period, the customers' closing likely will be delayed.

4. Delivery of Forms: Under the rule, either the creditor or a mortgage broker acting on their behalf may provide the Loan Estimate Form to the consumer. However, in either situation it is the creditor who is ultimately responsible for complying with all requirements concerning the information provided in the form and its provision to the consumer.

5. Tolerance Levels: The concept of "tolerance levels" was introduced with the 2010 GFE and HUD-1. Under the CFPB rule, this concept is carried forward but some of the items will fall under more stringent tolerance levels.

Second, how will the changes affect real estate agents? Realtors will need to be able to talk their clients through the new forms. Realtors will also need to be cognizant of the mandatory three-day notification for both the Loan Estimate form and the Closing Disclosure form, since it will affect the timing of the transaction.

Lastly, realtors will need to be prepared for clients having to qualify for a mortgage under the more stringent underwriting requirements of the Ability-to-Repay/ Qualifying Mortgage rule.

Third, how will the changes affect the home buyer and seller? "Taking out a mortgage is one of the biggest financial decisions a consumer will ever make. Our new 'Know Before You Owe' mortgage forms improve consumer understanding, aid comparison shopping, and help prevent closing table surprises for consumers," said CFPB Director Richard Cordray. "Today's rule is an important step toward the consumer having greater control over the mortgage loan process."

The CFPB's whole purpose is to ensure that consumers get the information they need to make the financial decisions they believe are best for themselves and their families. However, as with any industry wide change, there will be a learning curve for all of us in the real estate field.

That being said, it is more important than ever that a lender, realtor, home buyer or seller use an attorney that focuses their practice in real estate.

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